



SUBJECT: 20 year budget driver forecast

TO: Committee of the Whole - Budget

FROM: Finance Department

Report Number: F-03-19

Wards Affected: All

File Numbers: 435-01

Date to Committee: February 21, 2019

Date to Council: March 25, 2019

Recommendation:

Receive and file finance department report F-03-19 regarding the 20 year budget driver forecast.

Purpose:

An Engaging City

- Good Governance

To present a 20 year operating budget forecast as part of the City's long term planning

Background and Discussion:

The City's Long Term Financial plan (Report F-22-12), contains the following key strategic objectives for the city:

1. Competitive Property Taxes
2. Responsible Debt Management
3. Improved Reserves and Reserve Funds
4. Predictable Infrastructure Investment
5. Recognized Value for Services

Other related reports:

F-12-17: 2016 Asset Management Financing Plan

F-02-19: 2019 Operating & Capital Budget Overview Report

Strategy/process

The 2019-2038 simulation uses the 2019 proposed budget (as submitted) as a starting point and adjusts the 2020–2038 forecast based on estimated budget drivers and the proposed 2019 capital budget and forecast.

As with any modeling tool, the simulation forecast has the greatest precision in the first year. It is imperative that the results are simply used as an information tool regarding major budget drivers and future projected tax impacts. Not only does it provide an analysis of what the future financial picture for the City of Burlington might look like, but it also helps assess financial risks and the affordability of existing services and capital investments, as well as provides an opportunity to analyze sensitivities to assumptions.

When forecasting into the future, it is difficult to predict with 100% accuracy given uncertainties around:

- Changes in economic conditions and market demands
- Fluctuations in customer expectations
- Legislative changes
- Reassessment impacts
- Operating impacts from approved capital initiatives
- Business process improvements

When updating the 20 year forecasting model, staff considered the general outlook for the city. Staff have shown a realistic scenario where assessment growth is maintained at 0.6% per annum for the next 4 years, reducing to 0.5% thereafter; no new legacy projects are forecasted; and infrastructure renewal funding is addressed as per the Asset Management Financing Plan (F-12-17). These components provided the basis for estimating budget drivers (as per Appendix A) and include the following assumptions within each item:

Maintaining Current Service Levels – Base Budget

Inflationary Impacts and User Fees

- With the exception of human resources and commodities (hydro, water, fuel etc.), 2.0% inflation per year has been applied to all other expense categories (materials and supplies, purchased services and contributions to local boards and committees)
- The increases to User Rates and Fees assumed a 2.0% increase per annum, which is dependent on the nature of the revenues and external market conditions

Corporate Expenditures/Revenues

- An annual increase to the provisions for Insurance and Contingency Reserves of \$50,000 and \$100,000 respectively.
- An increase in Investment Income of \$50,000 per year in 2021 and beyond given the moderately increasing interest rate environment.
- As the vacancy rebates are being phased out in Halton Region, there is a \$100,000 decrease in 2020 to bring the budget to zero.
- An annual increase of 4% to the Vehicle Depreciation Reserve Fund to sustain the City's fleet and equipment inventory

Other Key Priority Expenditures

Infrastructure Renewal Funding

- An annual increase of 1.25% for Dedicated Infrastructure Renewal Funding from 2019-2022, reduced to 1.0% for 2023-2033 and 0.5% for 2034-2038. This provides funding for capital renewal, as per the Asset Management Financing Plan (approved 20 year scenario).
- Includes the repurposing of the hospital levy to infrastructure renewal in 2019 (\$1.7 million), 2026 (\$0.5 million) and 2027 (\$2.6 million)
- An additional 0.2% for new infrastructure renewal (CW-20-15)

Transit Sustainability

- At the Committee of the Whole Workshop on September 7, 2017 council received a presentation from Transit staff on the challenges facing the long-term sustainability of their capital program. During 2018, Finance, in consultation with Transit staff, conducted a Transit capital funding review. This review indicated that the existing capital funding from provincial gas tax is insufficient to meet the long-term capital renewal needs of Transit. To ensure sustainability of the conventional bus renewal program, it is recommended that \$1,000,000 in provincial gas tax revenues currently used to support the Operating Budget be reallocated to the Capital program over 3 years. This will result in a tax impact to the City budget as the revenue source is phased over to the Capital program. The impacts are an increase of \$500,000 in 2019 and \$500,000 in 2020.

Transit Enhancements

- Significant Transit enhancements proposed in the Capital program have direct Operating impacts, such as funding for Transit Operators and additional costs for fuel, equipment and supplies. Over the 10 year period of 2020-2029, the average increase to Operating costs per annum is \$660,000.

Business Cases

- Estimated ongoing operational impacts from the proposed 2019 Capital Budget and Forecast, service improvements and growth related operating impacts in the future have been included.

Allowance for Unknown Factors

As with all forecasts, it is imperative to recognize that there are unknown factors that will likely occur in the future that could impact the model. In order to address these unpredictable factors, an amount of \$150,000 has been included in the 2021 forecast, increasing by \$50,000 per year until 2028, and maintained at \$500,000 beyond that.

Assessment Growth

The weighted assessment growth for the 2019 budget is **0.64%**. Assessment growth is estimated to be 0.6% per year from 2020 to 2023. For the remainder of the years, the assessment growth has been estimated to be 0.5%.

Financial Matters:

The proposed 2019 Operating Budget reflects a city tax impact of 3.99%, resulting in an overall tax impact of 2.45% (City, Region and Education).

The simulation forecasts the city tax impact from 2020 to 2038 to begin at 4.71% reducing to 2.81%. The overall tax rate impact (City, Region and Education) ranges from 2.90% in 2020 to 2.24% in 2038.

Total Financial Impact

The model indicates tax increases as follows (detailed in Appendix A):

| | | | | | | Average | | |
|----------------------------|------------------|-------|-------|-------|-------|---------------|---------------|---------------|
| | Proposed 2019 | 2020 | 2021 | 2022 | 2023 | 2024- 2028 | 2029- 2033 | 2034- 2038 |
| City Tax Increase | 3.99% | 4.71% | 4.29% | 4.17% | 3.71% | 3.91% | 3.50% | 2.84% |
| City Tax Bill Impact | 1.74% | 2.09% | 1.94% | 1.91% | 1.73% | 1.89% | 1.78% | 1.51% |
| Overall Tax Bill Impact | 2.45% | 2.90% | 2.75% | 2.71% | 2.53% | 2.64% | 2.52% | 2.24% |

Conclusion:

The 20 Year Budget Driver forecast is a tool that provides a high-level summary of major budget drivers and the expected tax impacts. This will be helpful to establish future budget targets, as well as provide the ability to undertake tax impact sensitivity analysis should circumstances change.

Respectfully submitted,

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Appendices:

A. 20-Year Forecasted Budget Drivers

Report Approval:

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.